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C O N F I D E N T I A L SECTION 01 OF 02 BAGHDAD 004045

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SUBJECT: KRG PM BARZANI ON THE HYDROCARBON LAW

Classified By: CETI Ambassador Charles Ries, reasons 1.4 b,d

¶1. (C) SUMMARY: In an 8 December meeting with U/S Jeffery, Kurdish Regional Government (KRG) Prime Minister Nechirvan Barzani requested U.S. support as an "honest broker" between the central government and the KRG on the national hydrocarbon law. PM Barzani also outlined his plans to travel to Baghdad within the next few days to discuss Peshmerga, Article 140, and hydrocarbon legislation. Of the four pieces of hydrocarbon legislation, PM Barzani placed highest priority on passage of a revenue management law, stating that the framework law might follow if the parties could reach political agreement to work out the technical details. PM Barzani pointedly expressed full confidence in Kurdish Minister of Natural Resources Ashti Hawrami as his primary representative on the hydrocarbon legislation. END SUMMARY.

¶2. (SBU) During an 8 December visit to the Kurdish Region to discuss hydrocarbon legislation with Kurdish officials, Under Secretary for Economic, Energy, and Agricultural Affairs Reuben Jeffrey met with Kurdish Regional Government Prime Minister Nechirvan Barzani at the "Red House" in Salahadin, Erbil. In attendance were KRG PM Nechirvan Barzani, KRG representative to the USG Qubad Talabani, KRG Head of Foreign Relations Department Falah Mustafa Bakir, KRG Minister of Natural Resources Dr. Ashti Hawrami, and USG officials from the Department, the Erbil RRT, and the Embassy.

¶3. (C) PM Barzani recounted the recent history of negotiations with the GoI to pass a federal oil and gas law, with agreements previously reached between the KRG and the central government in December 2006 and February 2007. He expressed frustration with the lack of progress after intense work with Ambassador Speckhard, Vice President al Mahdi, and Deputy Prime Minister Barham Salih to hammer out the May version of the revenue sharing law, and wryly observed that the KRG has never received a copy signed by PM Maliki of the side agreement, which PM Barzani had signed. Nevertheless, PM Barzani emphasized the uncertainty of the future USG presence in Iraq and framed the hydrocarbon law as a counter to rising Islamic influence in Baghdad. PM Barzani requested U.S. support as an honest broker in future negotiations of a hydrocarbon law, but qualified that request with an expression of concern about the extent of previous USG pressure to pass the oil framework. "Pressure needs to be applied elsewhere, quietly," he said.

¶4. (C) PM Barzani described the recent bout of contract signing by the KRG as an attempt to lead the GoI by example. He also explained the contract signed with Dana Gas was a response to the central government's failure to deliver

sufficient fuel and electricity to the KRG or to allocate sufficient funds to the KRG for that purpose. (NOTE: Dana Gas signed a service contract with the KRG to begin supplying gas for power generation from Khor Mor fields in April 2007. END NOTE)

¶ 15. (C) U/S Jeffrey said the USG wants to see definition of a process to resolve the impasse on the hydrocarbon framework law and revenue-sharing law. U/S Jeffrey noted that such a process would require compromises, but should allow agreement on core principles.

¶ 16. (C) In response, PM Barzani categorized revenue sharing as a political matter and the hydrocarbon framework law as a technical matter, involving decisions on how many fields should be allocated to Iraq National Oil Company, how exploration should proceed, and what model contracts should look like. Of the four pieces of hydrocarbon legislation, PM Barzani placed highest priority on passage of a revenue management law, stating that the framework law might follow if the parties could reach political agreement to work out the technical details. Minister Ashti laid out his vision for a framework to the negotiations, which among other things required identifying with whom the KRG could negotiate in Baghdad, and on which of the several draft versions negotiations should start, with the July 2007 version perhaps being the easiest to conclude.

¶ 17. (C) PM Barzani expressed skepticism that the GoI reluctance to conclude a law was attributable solely to its difficult Minister of Oil, and speculated that PM Maliki might oppose the law as well. PM Barzani outlined his plans for traveling to Baghdad within the next few days, where he planned to have "serious discussions" on Peshmerga funding,

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Article 140 implementation over the disputed territories, and the hydrocarbon law. PM Barzani said he would first speak to Sunni leaders, to include VP Hashemi, MoPDC Ali Baban, and Anbari tribal leaders. PM Barzani said he then wanted to meet with PM Maliki. To work the members of the Council of Representatives (CoR, the Iraq parliament), PM Barzani planned to send Dr. Hawrami to the CoR to explain to them the benefits of foreign investment, highlighting Dr. Ashti's success in convincing the Kurdistan National Assembly to pass its KRG Oil and Gas Law in August 2007.

¶ 18. (U) This cable was cleared by the delegation prior to departure.

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